EVALUATION OF BASIC FINANCIAL STATEMENTS UNDER TAS-27 AND IAS-27

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Abstract

As of 01/01/2005, all companies which are operating in member states of the European Union and whose securities are publicly traded are required to prepare their consolidated balance sheets, which is one of the financial statements, according to the provision set by the international accounting standards. Since Turkey is in the process of accession to the European Union, all companies listed on the stock exchange should use a common international accounting language in their financial reports. This situation requires compliance with international standardization in the field of accounting. In this study, TAS/IAS-27 "Consolidated and Separate Financial Statements Standard" was examined and consolidation operations necessary for preparation of consolidated balance sheets and consolidated income statements are explained.

Keywords: TAS-27 Standard, consolidated balance sheet, consolidated income statement

1. Introduction

From the second half of the 20th century onwards, economic activity between countries has increased along with the phenomenon of globalization and the world economy has become a single market. This situation has brought along many responsibilities to all businesses operating in national economies. In terms of the provision of financial information produced by businesses to the parties in need of such information and creation of financial reports, one of these responsibilities is the requirement that business operating results and financial structures be presented in a clear, understandable, fair, and comparable way in accordance with the economic systems and legal regulations of the countries[1]. However, today, the disappearance of borders as a result of globalization and the increasing international capital movements have necessitated the use of a common accounting language at an international level (accounting standards) by the businesses for preparation of their financial reports.

Since 1973, the International Accounting Standards Committee (IASC) has issued a large number of International Accounting Standards (IAS) in various topics to eliminate accounting practices in different countries and to establish an international accounting language, and it has made changes to the standards under necessary conditions. In 2001, the IASC was designated as the International Accounting Standards Board (IASB).While IASC's task was to create accounting standards for preparation of financial statements and ensure their applicability in the countries of the world, the IASB's mission has been to develop and publish the international accounting standards. Therefore, the international accounting standards issued by the IASB or as referred to by the new name of the International Financial Reporting Standards (IFRS) have been implemented since 2005 by the companies whose securities are publicly traded in the member states of the European Union[2].

In Turkey, international accounting standards were translated into our language and Turkish Accounting and Auditing Standards Board was established in 1994 to determine the principles required for the preparation of financial statements of companies operating in Turkey and to ensure compliance of Turkish Accounting Standards (TAS) with the International Accounting Standards (IAS).Initially, the Board adopted and issued the drafts of 11 standards in 1996 as Turkish Accounting Standards and these standards entered into force at the beginning of the fiscal year of 1997. However, these standards were not implemented in practice since the Board did not have the power to impose sanctions on the companies. In 1999, Turkish Accounting Standards Board (TASB) was established with administrative and financial autonomy. Until today, the TASB has published 41 Turkish Accounting Standards and nine Financial Reporting Standards compliant with the IAS / IFRS.

In the process of developing accounting standards in Turkey, various official bodies have also played an important role by making legal arrangements according to their fields of

[1]Mustafa Turkkot, "International Standards in Financial Accounting"*Yaklasim Journal*,Year: 13, Issue: 148, April-2005, p. 40.
[2]Umit Gucenme,*Analysis of Financial Statements and Inflation Accounting,*5.Edition,Alfa Publications, Bursa, 2005, p. 5.

activity[3].One of these organizations is the Capital Markets Board, which has issued communiqués that have entered into force on different dates. However, the Board's Communiqué No. 25 published in 2003 is almost a translation of IAS / IFRS. In Turkey, since 2005 fiscal year, banks and publicly traded companies under the control of the Capital Markets Board prepare their financial statements in accordance with the International Accounting / Financial Reporting Standards[4].Another organization, the Banking Regulation and Supervision Agency, has published communiqués related to the Regulation on Accounting Practice in the banking sector and introduced these into practice in 2005. These communiqués include accounting standards compliant with the IAS / IFRS, which determine the principles of preparing financial statements for banks. However, the obligation to implement the accounting standards set by these organizations is only undertaken by the companies that are subject to their own laws. Therefore, the area of application of standards is extremely limited[5].

The purpose of this study is to investigate the preparation of consolidated balance sheets and consolidated income statements of companies operating in Turkey within the scope of TAS/IAS-27 "Consolidated and Separate Financial Statements Standard".

2. General Explanations On The Consolidated And Separate Financial Statements Standard (Tas/Ias-27)

The scope of the consolidated and separate financial statements standard can be explained as follows[6]:

- Determination of the principles relating to preparation and presentation of consolidated financial statements for a group of entities under the control of a parent,

- This standard is applicable in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.

[3] Yuksel Koc Yalkin, Volkan Demir and Defne Demir, "International Financial Reporting Standards and Development of Financial Reporting Standards in Turkey",*Mali Cozum Journal*,Issue: 76,Special Issue, November-2006, pp. 297-300.

[4] Aydin Karapinar, "Turkish Accounting / Financial Reporting Standards and the Uniform Accounting System",*Yaklasim Journal*,Year: 15, Issue: 173, May 2007, p. 39.

[5] Yalkin, Demir and Demir, ibid., pp. 300-301.

[6] Turkish Accounting Standards Board,*International Financial Reporting Standards(IFRS / IAS)-Compliant TAS*,TASB Publications, Ankara, 2011, p. 643.

Since the methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination, are specified in "TFRS/IFRS-3 Business Combinations", they are not covered in this standard.

Before explaining the general principles of consolidated financial statements relating to this standard, it will be useful to clarify the concept of financial statement which is used as a tool in the reporting function of accounting. Financial statements are tools for transferring information on the events occurring in the organization to business owners and other business stakeholders at specified intervals[7]. A further definition is that financial statements are the tables prepared in accordance with accounting principles and containing information on an enterprise's assets and capital structure, formation and use of results of its operations, and similar issues[8]. Another definition is that financial statements are the tools describing the financial condition and the changes in financial status of a business[9].

Due to various factors such as the global economy, cross-border economic integration, development of financial markets and so on, businesses operate in different sectors together with other businesses which have different capital structures. Therefore, the increase in the number of entities of the same group requires preparation of consolidated financial statements. However, today it has become a necessity to consolidate financial statements in groups structured as a holding which is now widely used as a tool for growth.

The main purpose of preparation of the consolidated financial statements is to give information about operating results and financial structure of the parent company of a group of corporations, subsidiaries controlled by the parent company, and partnerships as a whole to those concerned with the business. This main purpose at the same time brings about the greatest concern regarding the preparation of the financial statements. However, those concerned with the business agree that consolidated financial statements are more convenient and more informative than separate financial statements in terms of evaluating both financial activities and financial performance of a group within a partnership structure[10].

This standard is set by the International Accounting Standards Board for the first time in 1987 as the standard draft of "Consolidated Financial Statements and Subsidiaries". In April 1989, it has been accepted as the "IAS-27 Consolidated Financial Statements and

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[7]Nalan Akdogan, Nejat Tenker,*Financial Statements and Ratio Analysis in Uniform Accounting System* ,Ankara, 1991, p. 2.
[8]Ahmet Hayri Durmus,*Analysis of Financial Statements,*Istanbul, 1990, p. 1.
[9]Adem Cabuk, Ibrahim Lazol,*Analysis of Financial Statements,*Bursa, 2004, p. 141.
[10]Hadi Ekinci, "Consolidation of Financial Statements in Banking Sector",*Mali Cozum Journal,*Issue: 59, April-May-June-2002, p. 101.

Subsidiaries Standard" and entered into force on January 1, 1990. Then,it has been revised by the Board, in 1994, 1998, 2005, 2008, and 2010, respectively[11].

In Turkey, various agencies have carried out studies on legal regulations concerning the preparation of consolidated financial statements.The first study was conducted by the Capital Markets Board (CMB) in 1992. The following communiqués were issued by the Board[12]and also entered into force by being published in the Official Gazette (OG).

- Serial: XI, No: 7 "Communiqué on Principles and Rules Pertaining to the Consolidated Financial Statements in the Capital Markets" in the OG dated 03/28/1992, No. 21185,

- Serial: XI, No: 21 "Communiqué on the Principles and Procedures Pertaining to the Consolidated Financial Statements and Accounting for Partnerships in the Capital Markets", in the OG dated 11/13/2001 and No. 24582,

- Serial: XI, No: 22"Communiqué Amending the Communiqué on the Principles and Procedures Pertaining to the Consolidated Financial Statements and Accounting for Partnerships in the Capital Markets", in the OG dated 01/17/2002 No. 24643,

- Serial XI, No: 25 "Accounting Standards in Capital Markets" in the OG dated 11/15/2003 and reiterated No. 25290.

Another legal arrangement on this matter is the "Communiqué on Principles and Procedures Pertaining to the Preparation of Consolidated Financial Statements and the Announcement of Consolidated Financial Statements" issued by the Prime Ministry Undersecretariat of Treasury and published in published in the Official Gazette dated 05/10/1997 No. 22985 [13] . Other regulations issued by the Banking Regulation and Supervision Agency (BRSA) are the "Communiqué Pertaining to the Accounting Practice Regulations, for the Standard of Preparation of Consolidated Financial Statements and the Accounting for Subsidiaries, Joint Ventures, and Partnerships" published in the Official Gazette dated 06/22/2002 and repeated No. 24793 and the "Communiqué Pertaining to the Preparation of Consolidated Financial Statements of Banks" published in the Official Gazette dated 11/08/2006 No. 26340.

However, due to the fact that all enterprises whose securities are publicly traded in the member states of the European Union are obliged to prepare their consolidated financial statements in accordance with IFRS as of 01/01/2005 and compliance with the IFRS is

[11]http://www.iasplus.com/standard/ias27.htm(08/04/2011).
[12]http://www.resmigazete.gov.tr/default.aspx(08/06/2011).
[13]Yakup Selvi, Fatih Yilmaz, "Analysis of CMB Communique on Consolidation and A Case Study,"*Mali Cozum Journal*,Issue: 59, April-May-June-2002, pp. 144.

mandatory, the adoption of these standards has come into question in Turkey as well since the country is in the European Union accession process. The use of IFRS-compliant accounting standards in Turkey has importance in terms of not only ensuring the unity of application for the preparation of financial statements, but also raising the companies' level of competition against foreign enterprises, providing easier access to finance, encouraging foreign-owned enterprises to increase their investments in the country, and fortifying the validity of financial statements of Turkish firms in international markets. Therefore, Turkish Accounting Standards Board (TASB) was established to issue the national accounting standards for preparation of uniform, IFRS-compliant financial statements[14].

The Board conducts joint translation studies with the IASB to ensure the validity of Turkish Accounting Standards in international arena[15].

"TAS 27 Consolidated and Separate Financial Statements Standard" was issued for the first time by the Board and published in Official Gazette dated 12/17/2005 No. 26026, to be applied for accounting periods beginning on or after 12/31/2005.This standard was updated through the Communiqués indicated below[16] to ensure it is comparable to the modifications taking place in the International Accounting Standards.

- Communiqué No. 68 published in OG dated 08/13/2008 No. 26966,
- Communiqué No. 115 published in OG dated 11/28/2008No. 27068,
- Communiqué No. 127 published in OG dated 12/31/2008 No. 27097,
- Communiqué No. 184 published in OG dated 04/27/2010 No. 27564,
- Communiqué No. 211 published in OG dated 03/20/2011 No. 27880.

3. General Principles Of Consolidated Financial Statements

Since the consolidatedfinancial statements are the tables presenting financial statements of a group of companies as a single economic entity, it is of utmost importance that the persons using these tables are able to carry out true and accurate assessments. Therefore, businesses that are consolidating their financial statements are required to fulfill certain requirements. These conditions are as follows[17]:

- Control power and continuity of control: Control power and continuity of control is one of the most fundamental conditions for consolidation. A company's having the power

[14]http://www.consulta.com.tr/index2.php?option=com_content&do pdf=1&id=47 (08/06/2011).
[15]Mahmut Yardımcioglu, "Consolidation of Financial Statements and Evaluation in terms of International Accounting Standards",*Mali Cozum Journal*,Issue: 90, 2008, p. 151.
[16]http://www.tmsk.org.tr(08/07/2011).
[17]Turkish Accounting Standards Board, ibid., pp. 645-648.

to control another business entity[18]is related to the presence of the power to govern the financial and operating policies of the entity and the purpose of benefiting from the activities of the entity. In the course of assessing whether a company has the power to control an entity's financial and operating policies, the existence and the effect of the present available or transferrable potential voting rights are taken into consideration including the potential voting rights retained by another entity (TAS-27, art.14). A parent company may lose its control of a subsidiary with or without a change in absolute or relative ownership levels (TAS-27, art. 32). In addition, the acquisition of the shares of the subsidiary by the partnership is important in terms of continuity of the control power.

- Capital Share in the Partnership and Majority of Voting Rights: one of the conditions necessary for the consolidation is the capital share of the main shareholder in the partnership. Although the condition of owning certain percentage of the subsidiary or partnership for the subsidiary or partnership to be included in the consolidation is applicable almost in all countries, there are different arrangements for this ratio. However, if a generalization is made, it is possible to say that the rate is at least 50%[19].

-Concordance of Accounting Periods and Accounting Policies: Capital Markets Board CommuniquéSerial: XI, No. 21Article 7 states that the financial statements of subsidiaries to be included in the consolidation should belong to the same fiscal periods.However, in case there is more than three months between the ends of the accounting periods of partnerships to be included in the consolidation, the accounting period of the parent company is considered as the basis and interim financial statements are used in accordance with the Board's regulation on interim financial statements. In case there is less than three months between the ends of accounting periods, financial tables including previous dates are harmonized with the consolidated financial statement in accordance with the principles relating to the "Matters Arising after the Balance Sheet Date" and "Contingent Events" included in the regulations of the Board pertaining to the accounting standards.

Partnerships to be included in the consolidation should have prepared their financial statements according to the same accounting policies.However, in case the financial statements of partnerships are prepared according to different accounting policies, the

[18] Yildiz Ozerhan Akbulut, "Preparation of Consolidated Financial Statements Under TAS 27",*E-YaklasimJournal*,Issue: 58, May-2008.
[19]Michael A.Diamond,*Financial Accounting*,3rd Edition, Southwestern Publishing Co., 1993, p. 574.

differences caused by the accounting policies are eliminated in the course of preparation of consolidated financial statements by applying common accounting policies in accordance with the Board's regulations on accounting standards. If it is not possible to exactly calculate the differences caused by accounting policies, then the correction process is carried out according to certain estimates and explained in the footnotes of the statements.

Basic principle of consolidation is that the parent company must reflect its subsidiaries and jointly controlled entities in its consolidated financial statements where it retains its control power and control continuity.However, according to the Communiqué Serial: XI, No. 21 article 6 issued by the Capital Markets Board, subsidiaries and jointly controlled entities are exempt from the consolidation in the presence of one of the following conditions. These exceptional conditions are;

- Parent company controls the subsidiaries and jointly controlled entities temporarily with an aim to sell off in the near future,

- A subsidiary or a jointly controlled entity does not have the ability to transfer funds to the parent due to severe long-term restrictions.

Apart from these two exceptions mentioned above, in case the related entity's activity volume is low, those entities which do not have a significant impact on the consolidated financial statements can also be kept outside the scope of consolidation.However, a subsidiary (TAS-27, art. 16 and 17) cannot be excluded from consolidation simply because the investor is a venture capital organization, mutual fund or similar entity, or simply because its business activities are dissimilar from those of the other entities within the group. Such subsidiaries should be included in the consolidated financial statements and additional information on different activity areas should be specified in the footnotes of the tables.

A parent company, on the other hand, may prefer to present a separate financial statement instead of a consolidated financial statement. This preference of the parent can only be exercised in case one of the four following conditions occurs (TAS-27, art. 10):

- The parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent’s not presenting consolidated financial statements,

- Debt instruments or equity instruments of the parent company are not traded in any public market,

- The parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market,

- The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Turkish Financial Reporting Standards.

4. Preparation And Presentation Of Consolidated Basic Financial Statements

In Turkey, "the General Communiqué on Accounting System Implementation" was published in the Official Gazette on 12/26/1992 for the healthy and reliable accounting of activities and results of operations of natural and legal persons who are bookkeeping using the balance sheet procedure and for the presentation of information to those concerned with the business by means of financial statements. According to this communiqué, basic financial statements consist of the "balance sheet" and "income statement". Consolidation ofthe basicstatements is done by adding all assets, liabilities, equity, revenues and expenses of the parent company and subsidiaries line by line. However, prior to starting the consolidation process, for the basic statements to be consolidated to be valid and meaningful, they should satisfy the conditions stated below. These conditions are[20];

- Financial Statements Shall Have the Same End of Reporting Date: The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date.However, in case the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent (TAS-27, art. 22). The difference between the end of reporting periods of the parent and its subsidiaries shall not exceed three months. The lengths of reporting periods and the difference between the ends of reporting periods shall be the same from period to period (TAS-27, art. 23).

- Coherence of Accounting Policies: Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances(TAS-27, art. 24).In case the financial statements of any of the companies included in the consolidated financial statements are prepared by using accounting policies other than those adopted in the consolidated financial statements for like transactions and

[20]Turkish Accounting Standards Board, ibid., p. 647.

events in similar circumstances, the necessary adjustments are made to the related company's financial statements during the preparation of consolidated financial statements (TAS-27, art. 25).

4.1. Consolidation Procedures

For the commercial transactions between the subsidiaries to be not included in the consolidated statements repeatedly, elimination (offset) operation should be performed in the consolidation process[21]. For the consolidated financial statements to be able to present the financial information related to the group as that of a single economic entity, the following procedures are implemented (TAS-27, art. 18):

- The carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated,

- Non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified,

- Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them,

- When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights (TAS-27, art. 19),

- Intragroup balances, transactions, income and expenses shall be eliminated in full (TAS-27, art. 20),

- Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. TAS-12 "Standard for Income Taxes" applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions (TAS-27, art. 21),

- The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in TFRS-3.Income and expenses of the subsidiary shall be based on the values of the assets and liabilities recognized in the parent's

[21]Ekinci, ibid., p. 107.

consolidated financial statements at the acquisition date. For example, depreciation expense recognized in the consolidated statement of comprehensive income after the acquisition date shall be based on the fair values of the related depreciable assets recognized in the consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary (TAS-27, art. 26),

- Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent (TAS-27, art. 27),

- Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests.Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (TAS-27, art. 28),

- If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not dividends have been declared (TAS-27, art. 29),

- Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (TAS-27, art. 30).In such circumstances the carrying amounts of the non-minority entities and the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the parent (TAS-27, art. 31).

4.2. Principles Relating to the Disclosures of Consolidated Financial Statements

The 41starticle of the Standard sets the information to be included in the disclosures of the consolidated financial statements.This information is as follows:

- The nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than 50% of the voting power,

- The reasons why the ownership, directly or indirectly through subsidiaries, of more than 50% of the voting or potential voting power of an investee is assumed to not constitute control and hence the entities are not included in the consolidation,

- The end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a date or for a period that is different from that of the parent's financial statements, and the reason for using a different date or period,

- If any, the nature and extent of any significant restrictions such as those resulting from borrowing arrangements or regulatory requirements on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances,

- A schedule that shows the effects of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parent,

-In case the control of a subsidiary is lost, the parent shall disclose the gain or loss, if any, indicating the sub items of the comprehensive income statement where the gain or loss in question is recognized.

5. Case Study

Within the scope of this standard, if the parent company alone has the power to control, it can implement the "Full Consolidation Method" by eliminating the corresponding accounts even if it does not own 100% of the capital assets of the companies included in the consolidation.In this section, within the framework of the regulations included in TAS-27 Consolidated and Separate Financial Statements Standard, preparation of consolidated balance sheet, consolidated income statements, and elimination operations are explained on the example given below where a parent company has acquired a certain share of another entity's equity.

5.1. Case Study on Preparation of the Consolidated Balance Sheet

(X), parent company, has purchased 80% of the equity share of (Y) entity for TRY 6.5 million.The fair value of identifiable assets of the subsidiary is equal to the carrying amount. There has been no purchase and sale transaction between the parent (X) and the subsidiary (Y) within the accounting period. However, the transactions which have taken place between the parent and the subsidiary are given below, respectively.

The parent (X) has charged the subsidiary (Y) a term lease of TRY 200 for the building the subsidiary uses for the management tasks.

The subsidiary (Y) has received from the parent (X) accrued interest expense of TRY 150 for its long-term commercial debt.

Separate balance sheets of the parent (X) and the subsidiary (Y) prior to the acquisition are as follows:

	Parent (X)	Subsidiary (Y)
I. CURRENT ASSETS	12.339 million	1.688 million
A. Liquid Assets	8.108 million	412,000
Cash	7 million	277,000
Banks	1.108 million	135,000
B. Trade Accounts Receivable	3.231 million	976,000
Accounts Receivable	2.504 million	604,000
Notes Receivable	727,000	372,000
C. Inventories	1 million	300,000
Trade Goods	1 million	300,000
II. FIXED ASSETS	63.274 million	4.96 million
A. Tangible Fixed Assets	63.274 million	4.96 million
Buildings (Net)	62.9 million	4.7 million
Fixtures and Fittings (Net)	374,000	260,000
TOTAL ASSETS	**75.613 million**	**6.648 million**
III. SHORT TERM LIABILITIES	343,000	221,000
A. Trade Accounts Payable	343,000	221,000
Accounts Payable	263,000	172,000
Notes Payable	80,000	49,000
IV. LONG TERM LIABILITIES	40.3 million	13,000
A. Financial Payables	40.3 million	13,000
Bank Loans	40.3 million	13,000
V. SHAREHOLDERS' EQUITY	34.97 million	6.414 million
A. Contributed Capital	30 million	5.55 million
Capital	30 million	5.55 million
B. Profit Reserves	304,000	186,000

	Parent (X)	Subsidiary (Y)
Legal Reserves	304,000	186,000
C. Accumulated Earnings	4.49 million	630,000
Accumulated Earnings	4.49 million	630,000
D. Net Profit (Loss) for the Period	176,000	48,000
Net Profit for the Period	176,000	48,000
TOTAL LIABILITIES	**75.613 million**	**6.648 million**

Elimination proceduresconcerning the preparation of the consolidated balance sheet are as follows:

(a) The positive difference (goodwill) occurring between the price paid by the parent during the acquisition of 80% of the equity share of (Y) entity and the 80% of the equity capital of this entity must be calculated. In other words, in the calculation of the consolidation goodwill, the equity capital of the acquired entity is calculated over the amount corresponding to the ratio of acquired equity. Consolidation goodwill is calculated as follows:

Consolidation Goodwill

Fair Value of Subsidiary (6.5 million / 0.80 = 8.125 million)	8.125 million
Fair Value of Identifiable Net Assets of Subsidiary	(6.414 million)
Consolidation Goodwill	1.711 million

This value (consolidation goodwill) will be included in the assets of the consolidated balance sheet until it is redeemed.

(b) Due to the implementation of the full consolidation method, the shares outside the consolidated group (minority interests) must be calculated in the consolidated balance sheet. However, in order to determine this value, initially, the amount of "minority interest goodwill" should be determined. Calculation of the minority interest is as follows:

The Amount of Parent Share Goodwill

The Amount Paid by Parent Company	6.5 million
The Amount Corresponding to the Parent's Share in the Identifiable Net Assets of the Subsidiary (6.414 million x 0.80 = 5.1312 million)	(5.1312 million)
The Amount of Parent Share Goodwill	1.3688 million

The Amount of Minority Interest Goodwill

Consolidation Goodwill	1.711 million
The Amount of Parent Share Goodwill	(1.3688 million)
The Amount of Minority Interest Goodwill	342.200

Minority Interest = (6.4144 million x 0.20) + 342 200 (Goodwill) – 38.400 (received profit for the period) = 1.5866 million

The parent (X)'s acquisition of 80% of the subsidiary (Y)'s equity capital has only led to a change in the assets of the balance sheet. The decrease in current assets caused anincrease in fixed assets.There has not been any change in the Asset / Liability total.

(c) Since profit reserves within shareholders' equity of the subsidiary,and **(d)**retained earnings constitute profits before acquisition, they are eliminated with the subsidiaries account during the process of consolidation and consequently they are not included in the consolidated balance sheet.

(e) Theparent's rental income from the subsidiary and**(f)**the accrued interest expense are deducted from the related accounts reciprocally and therefore they are not included in the "parent dividend".

(g) The net profit of the subsidiary is TRY 48,000; TRY 38,400 of this amount belongs to the parent and TRY 9,600 belongs to the minority shareholders. This amount (TRY 9,600) reduces the profit that belongs to the minority shares on the consolidated balance sheet.

In this case, the balance sheet is prepared as follows:

	(X) Parent	(Y) Subsidiary	Elimination Records		CONSOLIDATED BALANCE SHEET
			PAYABLES	RECEIVABLES	
I. CURRENT ASSETS	5.839 million	1.688 million			7.527 million
A. Liquid Assets	1.608 million	412,000			2.02 million
Cash	500,000	277,000			777,000
Banks	1.108 million	135,000			1.243 million
B. Trade Accounts Receivable	3.231 million	976,000			4.207 million
Accounts Receviable	2.504 million	604,000			3.108 million
Notes Receivable	727,000	372,000			1.099 million
C. Inventories	1 million	300,000			1.3 million
Trade Goods	1 million	300,000			1.3 million
II. FIXED ASSETS	69.774 million	4.96 million			69.945 million
A. Financial Fixed Assets	6.5 million	-		6.5 million	-
Subsidiaries	6.5 million	-		6.5 million	-
B. Tangible Fixed Assets	63.274 million	4.96 million			68.234 million
Buildings (Net)	62.9 million	4.7 million			67.6 million
Fixtures and Fittings (Net)	374,000	260,000			634,000
C. Intangible Fixed Assets					1.711 million
Consolidation Goodwill			1.711 million **(a)**		1.711 million

	(X) Parent	(Y) Subsidiary	Elimination Records		CONSOLIDATED BALANCE SHEET
			PAYABLES	RECEIVABLES	
TOTAL ASSETS	**75.613 million**	**6.648 million**			**77.472 million**
III. SHORT TERM LIABILITIES	343,000	221,000			564,000
A. Trade Accounts Payable	343,000	221,000			564,000
Accounts Payable	263,000	172,000			435,000
Notes Payable	80,000	49,000			129,000
IV. LONG TERM LIABILITIES	40.3 million	13,000			40.313 million
A. Financial Payables	40.3 million	13,000			40.313 million
Bank Loans	40.3 million	13,000			40.313 million
V. SHAREHOLDERS' EQUITY	34.97 million	6.414 million			36.595 million
A. Contributed Capital	30 million	5.55 million	5.55 million		31.5866 million
Capital	30 million	5.55 million	5.55 million		30 million
Minority Interest				1.5866 million **(b)**	1.5866 million
B. Profit Reserves	304,000	186,000	186,000 **(c)**		304,000
Legal Reserves	304,000	186,000	186,000		304,000
C. Accumulated Earnings	4.49 million	630,000	630,000 **(d)**		4.49 million

	(X) Parent	(Y) Subsidiary	Elimination Records		CONSOLIDATED BALANCE SHEET
			PAYABLES	RECEIVABLES	
Accumulated Earnings	4.49 million	630,000	630,000		4.49 million
D. Net Profit (Loss) For the Period	176,000	48,000			
Net Profit for the Period	176,000	48,000			
Parent Dividend	176,000	48,000	200 **(e)** 150 **(f)** 9,600 **(g)**	200 **(e)** 150 **(f)**	214,400
TOTAL LIABILITIES	**75.613 million**	**6.648 million**			**77.472 million**

5.2. Case Study on Preparation of the Consolidated Income Statement

The individual income statements of Parent (X) and Subsidiary (Y) prior to the acquisition are as follows:

	Parent (X)	Subsidiary (Y)
Gross Sales	630,000	322,000
Sales Discounts	(30,000)	(22,000)
Net Sales	600,000	300,000
Cost of Goods Sold	(190,000)	(70,000)
Gross Profit on Sales	410,000	230,000
Operating Expenses	(60,000)	(25,000)
Operating Profit	350,000	205,000
Income and Profit from Other Ordinary Operations	40,000	15,000
Expenses and Losses from Other Ordinary Operations	(20,000)	(70,000)
Financing Expenses	(150,000)	(90,000)
Ordinary Profit	220,000	60,000

	Parent (X)	Subsidiary (Y)
Extraordinary Income and Profits	-	-
Extraordinary Expenses and Losses	-	-
Profit for the Period	220,000	60,000
Provision for Income Taxes and Other Legal Obligations	(44,000)	(12,000)
Net Profit for the Period	176,000	48,000

Elimination proceduresconcerning the preparation of the consolidated income statement are as follows:

(e) Since theparent's rental income from the subsidiary and**(f)**the accrued interest expense cannot be included in the "parent dividend" they are eliminated reciprocally in the related accounts.

(g) The net profit of the subsidiary is TRY 48,000; TRY 38,400 of this amount belongs to the parent and TRY 9,600 belongs to the minority shareholders. Therefore, this amount (TRY 9,600) is not included in the consolidated income statement.

In this case, the consolidated income statement is prepared as follows:

	(A) Parent	(B) Subsidiary	Elimination Records		CONSOLIDATED INCOME STATEMENT
			PAYABLES	RECEIVABLES	
Gross Sales	630,000	322,000			952,000
Sales Discounts	(30,000)	(22,000)			(52,000)
Net Sales	600,000	300,000			900,000
Cost of Goods Sold	(190,000)	(70,000)			(260,000)
Gross Profit on Sales	410,000	230,000			640,000
Operating Expenses	(60,000)	(25,000)		200 **(e)**	(84,800)
Operating Profit	350,000	205,000			555,200
Income and Profit from Other Ordinary	40,000	15,000	200 **(e)** 150 **(f)**		54,650

	(A) Parent	(B) Subsidiary	Elimination Records		CONSOLIDATED INCOME STATEMENT
			PAYABLES	RECEIVABLES	
Operations					
Expenses and Losses from Other Ordinary Operations	(20,000)	(70,000)			(90,000)
Financing Expenses	(150,000)	(90,000)		150 **(f)**	(239,850)
Ordinary Profit	220,000	60,000			280,000
Extraordinary Income and Profits	-	-			-
Extraordinary Expenses and Losses	-	-			-
Profit for the Period	220,000	60,000			280,000
Provision for Income Taxes and Other Legal Obligations	(44,000)	(12,000)			(56,000)
Net Profit for the Period	176,000	48,000			224,000
Distribution of Consolidated Profit					
Minority Interests			**(9,600) (g)**		(9,600)
Parent Dividend					214,400
Total Net Profit					224,000

6. Conclusion

The main objective of the international accounting standards is to ensure that both financial statements present reliable, comparable, and fair information on the financial structure and the performance of the business enterprise concerned; and to provide information on measurement, presentation, and disclosures to those concerned with preparation of financial tables.In Turkey that is in the accession process to the European Union, the use of international accounting standards is adopted to increase the level of competitiveness of companies operating in Turkey against the international companies, to fortify the validity of these companies in the world markets, to provide these companies with easier access to foreign sources of finance, and to promote foreign investment.

Banks and publicly traded companies in Turkey prepare their financial statements in accordance with international accounting standards since 01/01/2005.The standard concerning the consolidated financial statements which provide information about the financial structure of a group of companies under the control of a parent company as a single economic entity is implemented in Turkey taking into consideration the changes made in the international accounting standards.

For the consolidated financial statements to be able to present factual information about a group of companies, the financial statements which will be consolidated should belong to the same accounting period and comply with the accounting policies in practice.Companies satisfying these conditions are required to perform elimination operations prior to preparing their consolidated financial statements. The most important feature of this standard is that it presents the opportunity to estimate the amount of goodwill for the parent and the minority interests.

However, the International Accounting Standards Board has brought into the agenda the adequacy of the consolidation criteria in terms of the financial statements' representatives of the reality.In particular, revised drafts of this standard have been put forward at the end of 2011 to relieve the concerns about not recognizing the risk exposure in the financial statements in certain circumstances, for example the risk exposure originating from financial institutions, securitization, and specially structured investment instruments. Amendment is intended to increase transparency and eliminate the concerns. The most important change is that it is planned to introduce the definition of power to control based on the principle applicable to the relations of all potential parents and their subsidiaries including the special-purpose entities and structured organizations. In general, a change is not expected to occur in the companies to be consolidated based on the control criteria, however the managerial decisions mandatory to be made within the scope of IAS-27 are likely to be influenced.

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